



County of Los Angeles CHIEF EXECUTIVE OFFICE

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Chief Executive Officer

June 7, 2010

To: Supervisor Gloria Molina, Chair
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

Wendy L. Watanabe
Auditor-Controller

 Donald H. Blevins
Chief Probation Officer

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PROBATION DEPARTMENT COMPREHENSIVE FISCAL REVIEW (ITEM 17, AGENDA OF MARCH 23, 2010)

On March 23, 2010, on motion of Supervisor Molina, your Board directed the Chief Executive Office (CEO), Auditor-Controller (A-C), and Probation Department (Probation) to conduct a comprehensive fiscal review – which includes analyzing Probation's budgeted revenue and expenditures with actuals – to determine the structural problems with Probation's budget and any other ongoing problems that could potentially affect the County's Fiscal Year (FY) 2010-11 budget. This memorandum is in response to that direction and provides your Board with the results of our joint review.

Overview

Probation's projected budget deficit is \$36.8 million for FY 2009-10 based on actuals as of March 31, 2010. This deficit is comprised of an over-expenditure of \$4.4 million in Salaries and Employee Benefits (S&EB), under-realization of current-year revenue and Intrafund Transfers in the amount of \$33 million, and under-realization of prior-year revenue in the amount of \$4.1 million, partially offset by a combined savings of \$4.7 million in Services & Supplies (S&S), other charges, and capital assets. Please note, as additional information becomes available this projection may be revised.

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The current year revenue shortfall of \$32.7 million represents 89 percent of the budget problem. The under-realization of \$30.7 million in State vehicle license fee (VLF) revenue alone accounts for 83 percent of the problem. VLF revenue, over which Probation has no control, is used to fund camp operations and at-risk youth programs.

Budget Structure

Probation's budgetary structure is tailored to track and control expenditures and revenue at the bureau level while still providing a mechanism to monitor and report at a department level. Probation uses six budget units to track and control budget activity, five of which are for Probation's major transactions associated with their major functions within their operating budget. The five operating budget units and major functions are: 1) Support Services (Administrative Services, Executive Office and Operations, Information Systems Bureau, Management Services Bureau, Quality Assurance Services Bureau, and Training and Learning Development Services); 2) Field Services (Juvenile and Adult Field Services Bureaus); 3) Special Services (Placement and Special Services Bureaus); 4) Juvenile Institutions Services (Detention and Residential Treatment Services Bureaus); and 5) Care of Juvenile Court Wards. The remaining non-operating budget unit, Community-Based Contracts, is used for activities related to reducing juvenile crime and providing juvenile delinquency prevention services.

The FY 2009-10 Adjusted Budget net County cost (NCC) allocations among the budget units are as follows:

Table 1

Budget Unit	Net County Cost	Percent of Total
Care of Juvenile Court Wards	\$ 4.03	.89%
Field Services	99.29	22.03%
Juvenile Institutions Services	230.41	51.11%
Special Services	13.26	2.94%
Support Services	103.82	23.03%
Total	\$ 450.81	100.00 %

Figures shown are in millions.

Comparison of Budget to Actuals

In December 2009, Probation projected an overall budget shortfall of approximately \$51.7 million in NCC. As of this review, the projected budget deficit is \$36.8 million. The decrease in the projected shortfall of \$14.9 million is due to aggressive action taken by Probation in an effort to mitigate this problem. Most notably, Probation has reduced spending in S&S in areas such as training and office supplies (\$7.5 million); salaries

and wages, primarily in overtime (\$7.6 million); and capital assets (\$0.6 million). Probation has also identified additional revenue (\$0.4 million). Further analysis also showed that litigation costs will be less than anticipated (\$1.8 million). Unfortunately, these changes were partially offset by an increase in the projected shortfall in prior-year revenue by \$3 million.

For this review, CEO and Probation prepared a joint Budget Status Report which was then reviewed and tested for reasonableness by A-C. Projections were developed based upon actual expenditures and compared to the authorized budget to determine Probation's budget status for the year.

Based on a detailed comparison of Probation's estimated expenditures and revenues to current authorized budget amounts, we identified major variances that are contributing to the projected budgetary shortfall of \$36.8 million as summarized below.

Table 2

Budget Components	Adjusted Budget	Projection (as of March 2010)	Budget Variance (Over) / Under
Salaries and Employee Benefits	\$ 550.67	\$ 555.03	\$ (4.36)
Services and Supplies	136.55	132.61	3.94
Other Charges	8.09	7.97	.12
Capital Assets	.72	.12	.60
Total Expenditures	\$ 696.03	\$ 695.73	.30
Less: Intrafund Transfers	\$ 7.17	\$ 6.89	\$ (.28)
Less: Revenue	238.05	205.32	(32.73)
Current Year NCC	\$ 450.81	\$ 483.52	\$ (32.71)
Prior-year under-realized revenue		4.06	(4.06)
Total NCC	\$ 450.81	\$ 487.58	\$ (36.77)

Figures shown are in millions.

Detailed explanations of the major factors contributing to these variances are presented below:

Revenue

Probation's budget is funded with 65 percent NCC and 35 percent State, Federal, and other revenue sources. State revenue represents 63 percent of all revenues in Probation's budget. A breakdown of revenue by source is shown below:

Table 3

Revenue Source	Budget	Projection	Variance
Fines, Forfeitures & Penalties	\$ 1.17	\$ 1.70	\$.53
Use of Money	.13	.06	(.07)
Intergovernmental-State	149.99	111.77	(38.22)
Intergovernmental-Federal	65.06	75.11	10.05
Charges for Services	20.90	16.17	(4.73)
Miscellaneous	.76	.47	(.29)
Other Financing Sources	.04	.04	
Total Current Year	\$ 238.05	\$ 205.32	\$ (32.73)

Figures shown are in millions.

Probation's projected revenue shortfall of \$32.7 million consists largely of a loss of State VLF revenue of approximately \$30.7 million.

The budgeted revenue is allocated among the budget units as follows:

Table 4

Budget Unit	Revenue	Total Percentage
Field Services	\$ 48.89	20.55%
Juvenile Institutions	90.52	38.05%
Special Services	93.78	39.36%
Support Services	4.86	2.04%
Total	\$ 238.05	100.00%

Figures shown are in millions.

Probation and CEO had anticipated VLF revenue in FY 2009-10 to be at approximately the same level prior to the shift from General Fund to VLF. This expectation was based upon funding identified in the State's FY 2009-10 budget. However, in December 2009, Probation and CEO projected a significant decline in VLF revenue based on the State's updated projections. Due to the timing of this information, adjustments could not be made to Probation's budget without drastic and abrupt service reductions primarily to camp operations and at-risk youth programs. Careful analysis of program impacts were needed before making such reductions to ensure Probation's operations remained in compliance with the Department of Justice (DOJ) agreements.

While the County has no control over State funding reductions, Probation and CEO are taking the following actions:

- Probation's administrative (budget and fiscal) staff and CEO's budget staff will aggressively monitor revenue to identify potential problems and enable the departments to proactively develop a course of action.
- Executives are reviewing and analyzing operations in the affected areas to maintain service delivery to the fullest extent possible, but streamlining where feasible to reduce costs. Findings from the camp assessment that is currently underway will provide information useful for this process.
- The communications process between program and administrative staff has changed so that program staff is aware of budget and fiscal matters that impact their operations and understand the impact that their decisions have on maintaining fiscal integrity. Administrative staff will become more aware of program needs. Program and administrative staff now meet regularly to discuss such matters.
- CEO staff will meet monthly with Probation executive leadership to discuss ongoing and emerging issues and to engage in strategic planning.
- Revamped the existing Grants Unit to ensure grant staff will work closely with program and budget and fiscal staff to maximize grant opportunities.
- Program and administrative staff are aggressively working to identify revenue opportunities. Examples of revenues being pursued include:
 - I. Medi-Cal Administrative Activities – Maximize Federal reimbursement for outreach and access services for Medi-Cal children and families.
 - II. California Emergency Management Agency Grant - One-time grant funding to support evidenced-based adult Probation supervised programs.
 - III. SB 678 - State funding for reducing the number of adult probationers referred to the California Department of Corrections and Rehabilitation.
 - IV. Temporary Assistance for Needy Families – One-time Emergency Contingency funding for eligible program costs.

Salaries and Employee Benefits

The projected S&EB over-expenditure of approximately \$4.4 million is primarily attributed to the following:

Over Hires

As Probation did not have sufficient budgeted and vacant Detention Services Officer (DSO) positions, a plan was developed to achieve the State required 1:10 daytime supervision ratio and the one-on-one supervision of Level 3 youth by utilizing other available resources. First, Probation froze budgeted and vacant Deputy Probation Officer II (DPO II) positions in the Field and Special Services budgets and hired against these vacancies. Next, employees on long-term leave, who were no longer receiving benefits, were backfilled. These employees were placed in Pay Location (PL) 99. Lastly, overtime was used as a temporary "stop gap" until the hiring process could be completed. These actions were implemented in FY 2007-08.

In FY 2008-09, during November 2008 through February 2009, Probation hired 180 DSOs in the juvenile halls to address youth supervision issues, the increasing need to transport youth to external specialty medical appointments, and the one-on-one supervision needed for the growing number of mentally-challenged youth entering the juvenile halls.

In FY 2009-10, Probation was required to take a curtailment. The curtailment included the elimination of 44 DPO II positions. These positions appeared to be vacant and were eliminated before determining whether or not they were being used to fund positions in other parts of the budget. In instances where positions were frozen to fund the hiring of DSOs for the juvenile halls, the elimination of positions resulted in over-hires.

As previously stated, PL 99 should only contain employees who are on long-term leave and who are receiving no compensation. At the time the staffing plan for juvenile halls was developed, there were only 88 employees coded to PL 99. However, as of April 2010, there were 233 employees coded to PL 99. The compensation to these employees totals \$634,000 for the month. In instances where employees in PL 99 are receiving compensation and have been backfilled, an over-expenditure results.

Monitoring of this plan should have been achieved through the use and review of an Item Control and the Position Status Report. CEO and Probation are working to develop an accurate Item Control and to put a more stringent review process into place in both offices to rectify the current problem and avoid a reoccurrence. Included will be the implementation of procedures that ensure a thorough analysis of positions before they are filled or eliminated.

Overtime

As staffing levels increased, the use of overtime declined. As reflected below, current-year overtime estimates are significantly lower when compared to actuals of the prior two fiscal years:

Table 5

Fiscal Year	Budget	Actuals	Variance
2007-08	\$ 8,736,000	\$ 21,759,838	\$ (13,023,838)
2008-09	\$ 8,736,000	\$ 15,696,734	\$ (6,960,734)
2009-10	\$ 8,936,000	\$ 2,977,000	\$ 5,959,000

FY 2009-10 actuals represents the current year estimate through June 2010.

The significant reduction in overtime is due to a combination of the following:

- a. Probation increased staffing in the halls by over-hiring approximately 180-200 DSOs against other budgeted and vacant positions. The increased staffing has mitigated the overall use of overtime in the halls. This was necessary to address certain DOJ staff-to-youth supervision requirements and provide the necessary supervision for Level 3 minors (minors who have been identified through a mental health assessment to be suicidal and require one-on-one supervision).
- b. Implementation of ProbStat (an accountability system which enables management to monitor overtime expenditures) in the juvenile halls and camps. Probation management is currently conducting weekly reviews of overtime expenditures in the halls and camps.
- c. Monitor and restrict Departmentwide overtime hours worked and only allow overtime when necessary and approved.
- d. Reduction in the juvenile hall population (approximately 1,500 in FY 2008-09 to 1,300 in FY 2009-10). With fewer youth to supervise, the need for overtime has decreased. However, the overall staffing did not decrease as staff was redirected to supervise Level 3 youth who require increased supervision.

Services and Supplies

The projected savings of \$4 million is attributable to action taken by Probation to reduce spending in S&S in general, including training and information technology.

Probation will closely monitor spending and continue to monitor outstanding encumbrance/commitment balances to ensure only the necessary balances remain. Each quarter, Probation will cancel any outstanding encumbrances/ commitments when the need is not justified, with a focus on services that are no longer needed.

Capital Assets

Reflects an estimated \$600,000 savings due to the following: 1) \$223,000 in items (i.e., tattoo removal equipment, sports scoreboard, and ten-passenger tram) to facilitate youthful offenders rehabilitative and supervision services that are no longer necessary; 2) An estimated \$140,000 for an impending contract with Los Angeles County Office of Education for the implementation of a career technical education program at Camp Onizuka which was inadvertently appropriated as equipment rather than S&S. These funds will be re-appropriated under S&S in FY 2010-11; 3) An estimated \$160,000 in facility needs associated with the implementation of the career technical education program which was inadvertently appropriated as equipment rather than S&S; these savings are fully offset by an over-expenditure in S&S; and 4) Less than anticipated expenditures of \$75,000 of which \$34,000 is related to the impending purchase of State grant funded kiosk machines.

Additional Areas of Concern

Probation is working to address other critical areas of concern that need immediate attention. Probation has or will be implementing corrective actions to address the identified issues.

Item Control Clean Up Efforts

Probation, in conjunction with the Department of Human Resources, is undertaking various actions to develop an accurate Item Control. These actions include a temporary freeze on all manager and staff movements within Probation effective March 15, 2010, unless approved by the Chief Probation Officer. On April 1, 2010, an Item Control was sent to Probation managers to identify discrepancies between the Item Control and staff's actual work locations. In addition, on April 15, 2010, Probation conducted an unannounced payoff, a process in which employees pick up paychecks or direct deposit notices after they present a form of identification, at its headquarters in Downey. The information gathered from these and other planned actions will be used to create an accurate Item Control.

Bonuses

There are various types of bonuses being paid to Probation employees. Examples of these bonuses include bilingual, out-of-class assignment, longevity, additional responsibilities, and superior/subordinate. CEO is working with Probation to: 1) Review all bonuses provided to their staff and confirm whether only qualified employees are receiving bonuses, and 2) Discontinue those bonuses that are no longer justified. As part of this exercise, Probation will develop and implement a process to regularly review its bonuses to ensure ongoing justification. The results from this review will be reported to your Board in upcoming reports.

Corrective Actions

Probation's new administrative management began implementing controls and is continuing to review processes related to budget and fiscal administration as outlined below:

- Evaluating encumbrance/commitment balances to identify the balances that are no longer needed and can be cancelled. Thus far, we identified approximately \$3.3 million in unexpended encumbrances/commitments with balances that exceed the current year need. In general, the monies identified from this encumbrance reduction review will be used to offset current year one-time costs (e.g., over expenditures in areas with insufficient encumbrance balances). Cancelled commitment balances generally revert back to the General Fund as a contingency entry and is unavailable to supplement current year expenditures unless otherwise approved by the CEO.
- Reviewing services provided under existing contracts to determine whether services continue to be needed and, if so, at what service levels.
- Examining whether or not Probation's five operating budget units are adequate to provide sufficient information to monitor budgetary performance. Probation will explore the feasibility of budgeting and tracking revenue and expenditures utilizing additional cost centers or lower-level budget units, particularly related to each hall and camp. The overall goal of this exercise is to ensure the budget data tracked and reported provides management with the detailed information necessary to make effective business decisions.

- Imposed controls over management of resources: Movement of staff must be authorized by the Chief Probation Officer after analysis by Probation's Administrative Deputy.
- Improved communication: Functional executives are being included as active participants in the budget development and monitoring process. In addition, other key administrative managers are included in periodic management budget meetings.
- Imposed tighter controls on spending in discretionary areas of the S&S budget.
- Engaged in a review of contract expenditures in an effort to ensure that essential services continue to the extent possible without interruption.

Conclusion

Based on data gathered from the comprehensive fiscal review, the forthcoming camp assessment, and other planned actions, CEO in conjunction with Probation will provide your Board with a strategic budget plan with recommendations to address known budgetary issues and to strengthen the budgetary infrastructure. If you have any questions, please contact me or your staff may contact Deputy Chief Executive Officer Jacqueline White, Public Safety, at (213) 893-2374.

WTF:BC:JAW
NH:llm

c: Executive Office, Board of Supervisors
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